

METCALFE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

For the Year ended June 30, 2007

TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
BASIC FINANCIAL STATEMENTS:	
DISTRICT-WIDE FINANCIAL STATEMENTS	
Statement of Net Assets	7
Statement of Activities	8
FUND FINANCIAL STATEMENTS	
Balance Sheet - Governmental Funds	9
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	10
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Statement of Net Assets - Proprietary Funds	13
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	14
Statement of Cash Flows - Proprietary Funds	15
Statement of Net Assets - Fiduciary Funds	16
NOTES TO BASIC FINANCIAL STATEMENTS	17-29
REQUIRED SUPPLEMENTARY INFORMATION:	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	30
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Special Revenue Fund	31

TABLE OF CONTENTS (CONTINUED)

Page(s)

OTHER SUPPLEMENTARY INFORMATION:

Combining Balance Sheet - Capital Projects Fund	32
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Capital Projects Funds	33
Combining Statement - Non-Major Funds:	
Combining Balance Sheet - Non-Major Governmental Funds	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Governmental Funds	35
Combining Statement of Revenues, Expenditures, and Fund Balances - Agency Funds	36
Statement of Receipts, Disbursements and Fund Balance - High School Activity Fund	37-38

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	39-40
--	-------

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	41
---	----

SCHEDULE OF FINDINGS AND QUESTIONED COSTS	42
---	----

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	43
---------------------------------------	----

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	44-45
---	-------

SCHEDULE OF FINDINGS AND RESPONSES	46
------------------------------------	----

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	47-48
---	-------

MANAGEMENT LETTER COMMENTS	49-51
----------------------------	-------



INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Metcalf County School District
Edmonton, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Metcalf County School District (the "District") as of and for the year then ended June 30, 2007 which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

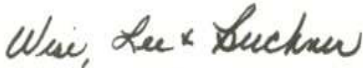
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for Schools District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 31, 2007, on our consideration of the Metcalf County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on Pages 3 through 6 and the budgetary comparison information on Pages 33 and 34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional information shown on Pages 32 through 38 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards on Pages 39 and 41 are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are also not a required part of the basic financial statements of the District. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

Campbellsville, KY
August 31, 2007

METCALFE COUNTY SCHOOL DISTRICT
EDMONTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED June 30, 2007

As management of the Metcalfe County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit report.

FINANCIAL HIGHLIGHTS

The beginning unreserved general fund balance for the district was \$850,399.

The General Fund had \$10,970,350 in receipts, which consisted primarily of the state program (SEEK), property, local occupational license taxes, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$10,116,103 in General Fund expenditures.

The District's outstanding debt, excluding KISTA, is \$5,192,770 at the end of fiscal year 2007.

The majority of General Fund revenues were derived from state sources, 79% and local taxes, 20%. Regular instruction, student support services, instructional support services, and school administration accounts for 79% of the District expenditures. Central support service expenditures were pupil transportation 9%, maintenance and operations 11%, and business functions 1%.

The District's unrestricted operating fund (General Fund) had \$9,058,780 in revenues, excluding on-behalf payments, which consisted mainly of Ad Valorem taxes, State SEEK, and Utility tax receipts. Ad Valorem was 15%, state SEEK was 74%, and utility tax receipts was 6%.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 7 and 8 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and, teacher support. The only proprietary funds are our vending and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 and 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41-49 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$3,902,179 as of June 30, 2007.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2007 as compared to June 30, 2006.

Assets	June 30, 2007	June 30, 2006
Current Assets	\$ 1,983,760	\$ 1,128,999
Non-current Assets	7,848,782	7,848,220
Total Assets	9,832,542	8,977,219
Liabilities		
Current Liabilities	903,405	802,446
Non-current Liabilities	5,026,958	5,645,774
Total Liabilities	5,930,363	6,448,220
Net Assets		
Investment in Capital Assets (net of debt)	2,656,012	2,050,608
Restricted	58,865	30,503
Unrestricted	1,187,302	447,888
Total Net Assets	3,902,179	2,528,999
Total Liabilities and Net Assets	\$ 9,832,542	\$ 8,977,219

Comments on Budget Comparisons

- Excluding on-behalf payments of \$1,911,569, the General Fund budget compared to actual revenue varied slightly from line item to line item with ending actual balance being \$414,239 more than budgeted due in large part to unanticipated increases in SEEK funding and increased ad valorem and utility tax collections.
- Actual General Fund expenditures, net of on-behalf payments of \$1,911,569 compared to budget expenditures, net of contingency allotments, was \$658,882 less than budget due to administration's careful monitoring of expenditures.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2007.

	General Fund	Special Revenue	Capital Outlay	Building Fund	Food Service
REVENUES:					
Local sources	\$ 2,280,544	\$ 32,225	\$ -	\$ 174,411	\$ 294,191
State sources	8,655,451	1,049,315	148,180	298,113	130,031
Federal sources	32,663	1,737,817	-	-	643,471
Other sources	<u>45,924</u>	<u>46,640</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	11,014,582	2,865,997	148,180	472,524	1,067,693
EXPENDITURES:					
Instruction	5,783,762	2,278,571	-	-	-
Student support	410,929	251,624	-	-	-
Inst. Support	478,926	128,285	-	-	-
District Admin	462,644	6,389	-	-	-
School Admin	806,096	-	-	-	-
Business support	117,019	-	-	-	-
Plant operations	1,149,428	1,187	17,014	-	-
Student transp	907,580	-	-	-	-
Non-instructional	-	-	-	-	-
Other	-	-	-	-	-
Comm service operations	-	195,709	-	-	-
Debt service	30,081	-	145,757	-	-
Building renovation	-	-	-	-	-
Food services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,073,308</u>
Total Expenditures	<u>10,146,465</u>	<u>2,861,765</u>	<u>162,771</u>	<u>-</u>	<u>1,073,308</u>
Excess (Deficiency) Before Transfers	868,117	4,232	(14,591)	472,524	(5,615)
Fund transfers	<u>(46,640)</u>	<u>(4,232)</u>	<u>-</u>	<u>(429,571)</u>	<u>(40,000)</u>
Revenues Over (Under) Expenditures	<u>\$ 821,477</u>	<u>\$ -</u>	<u>\$ (14,591)</u>	<u>\$ 42,953</u>	<u>\$ (45,615)</u>

FUTURE BUDGETARY IMPLICATIONS

In Kentucky, the public schools' fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2007-2008 with a 17% contingency. Significant Board action that impacts the finances includes an across-the-board, state-mandated pay increase for all employees (5% for classified personnel and a minimum of \$3,000 for certified), plus continued funding of Board initiatives such as the district-wide Fast Forward Initiatives, Smart Board Technology, district-wide summer school and Camp Invention programs.

Questions regarding this report should be directed to Patricia Hurt, Superintendent or Kathy Acree, Director of Financial Services at 270-432-3171 or by mail at 1007 West Stockton Street, Edmonton, Kentucky 42129.

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	\$ 1,546,874	\$ -	\$ 1,546,874
Accounts Receivable:	-	-	-
Taxes - Current	20,521	-	20,521
Taxes - Delinquent	-	-	-
Accounts	12,075	-	12,075
Intergovernmental - State	126,782	-	126,782
Intergovernmental - Federal	248,326	-	248,326
Inventories for Consumption	-	29,182	29,182
Total Current Assets	1,954,578	29,182	1,983,760
Noncurrent Assets - Note D:			
Land & Land Improvements	1,376,347	-	1,376,347
Buildings & Building Improvements	10,009,149	-	10,009,149
Vehicles	1,699,612	-	1,699,612
Furniture & Equipment	2,944,990	528,104	3,473,094
Less: Accumulated Depreciation	(8,357,679)	(351,741)	(8,709,420)
Total Noncurrent Assets	7,672,419	176,363	7,848,782
TOTAL ASSETS	9,626,997	205,545	9,832,542
LIABILITIES:			
Current Liabilities:			
Bank Overdraft	-	23,869	23,869
Accounts Payable	-	-	-
Accrued Interest Payable	28,374	-	28,374
Accrued Sick Leave - Note G	48,706	-	48,706
Deferred Revenues	175,131	-	175,131
Bond Obligations - Note E	505,000	-	505,000
Loans Payable - Note E	80,970	-	80,970
Note Payable - Note E	15,749	-	15,749
Capital Leases - Note E	25,606	-	25,606
Total Current Liabilities	879,536	23,869	903,405
Noncurrent Liabilities:			
Bond Obligations - Note E	3,680,000	-	3,680,000
Loans Payable - Note E	672,720	-	672,720
Note Payable - Note E	61,941	-	61,941
Capital Leases - Note E	150,784	-	150,784
Accrued Sick Leave - Note G	461,513	-	461,513
Total Noncurrent Liabilities	5,026,958	-	5,026,958
TOTAL LIABILITIES	5,906,494	23,869	5,930,363
NET ASSETS:			
Invested in Net Assets, Net of Related Debt	2,479,649	176,363	2,656,012
Restricted for:			
Capital Projects	58,865	-	58,865
School Based Decision Making	-	-	-
Other Purposes	-	-	-
Unrestricted	1,181,989	5,313	1,187,302
TOTAL NET ASSETS	3,720,503	181,676	3,902,179
TOTAL LIABILITIES AND NET ASSETS	\$ 9,626,997	\$ 205,545	\$ 9,832,542

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	\$ 7,857,030	\$ 557	\$ 2,236,163	\$ -	\$ (5,620,310)	\$ -	\$ (5,620,310)
Student Support Services	635,766	-	251,624	-	(384,142)	-	(384,142)
Staff Support Services	625,294	-	128,285	-	(497,009)	-	(497,009)
District Administration	463,996	-	6,389	-	(457,607)	-	(457,607)
School Administration	814,468	-	-	-	(814,468)	-	(814,468)
Business Support Services	117,341	-	-	-	(117,341)	-	(117,341)
Plant Operation & Maintenance	1,378,014	-	1,187	-	(1,376,827)	-	(1,376,827)
Student Transportation	879,363	-	-	-	(879,363)	-	(879,363)
Central Office	6,543	-	-	-	(6,543)	-	(6,543)
Community Service Operations	197,469	-	195,709	-	(1,760)	-	(1,760)
Facilities Acquisition & Construction	-	-	-	446,293	446,293	-	446,293
Interest on Long-Term Debt	239,258	-	-	-	(239,258)	-	(239,258)
TOTAL GOVERNMENTAL ACTIVITIES	13,214,542	557	2,819,357	446,293	(9,948,335)		(9,948,335)
BUSINESS-TYPE ACTIVITIES:							
Food Service	1,133,379	289,466	655,556	-	-	(188,357)	(188,357)
TOTAL BUSINESS-TYPE ACTIVITIES	1,133,379	289,466	655,556	-	-	(188,357)	(188,357)
TOTAL SCHOOL DISTRICT	14,347,921	290,023	3,474,913	446,293	(9,948,335)	(188,357)	(10,136,692)
GENERAL REVENUES:							
Taxes					2,368,378	-	2,368,378
State Aid - Formula Grants					8,887,057	117,946	9,005,003
Investment Earnings					80,427	4,203	84,630
Miscellaneous					45,594	522	46,116
SPECIAL ITEMS:							
Gain(Loss) Sale of Assets					(2,608)	-	(2,608)
Loss Compensation					8,353	-	8,353
TOTAL GENERAL & SPECIAL					11,387,201	122,671	11,509,872
CHANGE IN NET ASSETS					1,438,866	(65,686)	1,373,180
NET ASSETS - BEGINNING					2,281,637	247,362	2,528,999
NET ASSETS - ENDING					\$ 3,720,503	\$ 181,676	\$ 3,902,179

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	GENERAL FUND	SPECIAL REVENUE	CAPITAL PROJECTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	\$ 1,676,267	\$ (188,258)	\$ 58,865	\$ -	\$ 1,546,874
Accounts Receivable:	-	-	-	-	-
Taxes - Current	20,520	-	-	-	20,520
Taxes - Delinquent	-	-	-	-	-
Accounts	12,076	-	-	-	12,076
Intergovernmental - State	-	126,782	-	-	126,782
Intergovernmental - Federal	11,719	236,607	-	-	248,326
TOTAL ASSETS	<u>1,720,582</u>	<u>175,132</u>	<u>58,865</u>	<u>-</u>	<u>1,954,579</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	-	-	-	-	-
Accrued Sick Leave	48,706	-	-	-	48,706
Deferred Revenues	-	175,131	-	-	175,131
Total Liabilities	<u>48,706</u>	<u>175,131</u>	<u>-</u>	<u>-</u>	<u>223,837</u>
Fund Balance:					
Reserved for:					
Encumbrances	-	-	-	-	-
Site-Based Carry forward	-	-	-	-	-
Accrued Sick Leave	48,706	-	-	-	48,706
Unreserved:					
Unreserved - Reported in Non-Major	-	-	-	-	-
Capital Projects Fund	-	-	58,865	-	58,865
Debt Service Fund	-	-	-	-	-
Other Purposes	1,623,170	-	-	-	1,623,170
Total Fund Balance	<u>1,671,876</u>	<u>-</u>	<u>58,865</u>	<u>-</u>	<u>1,730,741</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,720,582</u>	<u>\$ 175,131</u>	<u>\$ 58,865</u>	<u>\$ -</u>	<u>\$ 1,954,578</u>

METCALFE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

Amounts reported for governmental activities in the statement of net assets are different because:

TOTAL GOVERNMENTAL FUND BALANCE	\$ 1,730,741
---------------------------------	--------------

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of Capital Assets	16,030,098	
Accumulated Depreciation	<u>(8,357,679)</u>	7,672,419

Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year end consist of:

Accrued Interest Payable	(28,374)	
Bonds Payable	(4,185,000)	
Loans Payable	(753,690)	
Note Payable	(77,690)	
Capital Leases	(176,390)	
Accrued Sick Leave	<u>(461,513)</u>	<u>(5,682,657)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$ <u><u>3,720,503</u></u>
--	----------------------------

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	GENERAL	SPECIAL FUND	CAPITAL PROJECT FUNDS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	\$2,194,528	\$ -	\$ 173,849	\$ -	\$ 2,368,377
Earnings on Investments	79,865	-	562	-	80,427
Intergovernmental - State	8,655,451	1,049,315	446,293	198,943	10,350,002
Intergovernmental - Federal	32,663	1,737,817	-	-	1,770,480
Other Sources	6,151	32,225	-	-	38,376
TOTAL REVENUES	10,968,658	2,819,357	620,704	198,943	14,607,662
EXPENDITURES:					
Instructional	5,783,762	2,278,571	-	-	8,062,333
Student Support Services	410,929	251,624	-	-	662,553
Staff Support Services	478,926	128,285	-	-	607,211
District Administration	462,644	6,389	-	-	469,033
School Administration	806,096	-	-	-	806,096
Business Support Services	117,019	-	-	-	117,019
Plant Operation & Maintenance	1,149,428	1,187	17,014	-	1,167,629
Student Transportation	907,580	-	-	-	907,580
Central Office	-	-	-	-	-
Food Service Operation	-	-	-	-	-
Community Service Operations	-	195,709	-	-	195,709
Adult Education Operations	-	-	-	-	-
Facilities Acquisition & Construction	-	-	-	-	-
Debt Service:					
Principal	-	-	-	593,468	593,468
Interest	-	-	-	210,884	210,884
TOTAL EXPENDITURES	10,116,384	2,861,765	17,014	804,352	13,799,515
EXCESS(DEFICIT) REVENUES OVER EXPENDIURES	852,274	(42,408)	603,690	(605,409)	808,147
OTHER FINANCING SOURCES(USES):					
Proceeds from Sale of Assets	292	-	-	-	292
Loss Compensation	1,400	-	-	-	1,400
Operating Transfers In - Note O	44,232	46,640	-	605,409	696,281
Operating Transfers Out - Note O	(76,721)	(4,232)	(575,328)	-	(656,281)
TOTAL OTHER FINANCING SOURCES	(30,797)	42,408	(575,328)	605,409	41,692
NET CHANGE IN FUND BALANCES	821,477	-	28,362	-	849,839
FUND BALANCES - BEGINNING	850,399	-	30,503	-	880,902
FUND BALANCES - ENDING	\$1,671,876	\$ -	\$ 58,865	\$ -	\$ 1,730,741

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Amounts reported for governmental activities in the statement of net assets are different because:

NET CHANGES - GOVERNMENTAL FUNDS \$ 849,839

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital assets exceeds depreciation expense for the year.

Depreciation Expense	(559,277)	
Capital Outlays	586,864	
	27,587	27,587

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal Paid	604,842	
	604,842	604,842

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.

Accrued Interest Payable	(28,374)	
Accrued Sick Leave	(8,075)	
	(36,449)	(36,449)

In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net assets differs from change in fund balances by the cost of the asset sold.

Loss - Sale of Assets	(6,953)	
	(6,953)	(6,953)

CHANGES - NET ASSETS GOVERNMENTAL FUNDS \$ 1,438,866

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007

	ENTERPRISE FUNDS		
	FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	\$ -	\$ -	\$ -
Investments	-	-	-
Accounts Receivable	-	-	-
Inventories for Consumption	29,182	-	29,182
Total Current Assets	29,182	-	29,182
Noncurrent Assets:			
Furniture & Equipment	528,104	-	528,104
Less: Accumulated Depreciation	(351,741)	-	(351,741)
Total Noncurrent Assets	176,363	-	176,363
TOTAL ASSETS	<u>\$ 205,545</u>	<u>\$ -</u>	<u>\$ 205,545</u>
LIABILITIES:			
Current Liabilities:			
Bank Overdraft	23,869	-	23,869
Accrued Sick Leave	-	-	-
Total Current Liabilities	23,869	-	23,869
Net Assets:			
Invested in Assets, Net of Debt	176,363	-	176,363
Unrestricted	5,313	-	5,313
Total Net Assets	181,676	-	181,676
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 205,545</u>	<u>\$ -</u>	<u>\$ 205,545</u>

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	ENTERPRISE FUNDS		
	FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	\$ 289,466	\$ -	\$ 289,466
Other Operating Revenues	522	-	522
TOTAL OPERATING REVENUES	289,988	-	289,988
OPERATING EXPENSES:			
Salaries & Benefits	555,792	-	555,792
Contract Services	6,798	-	6,798
Materials & Supplies	500,851	-	500,851
Depreciation - Note F	20,072	-	20,072
Other Operating Expenses	49,866	-	49,866
TOTAL OPERATING EXPENSES	1,133,380	-	1,133,380
OPERATING INCOME(LOSS)	(843,392)	-	(843,392)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	601,691	-	601,691
State Grants	130,031	-	130,031
Donated Commodities	41,780	-	41,780
Interest Income	4,203	-	4,203
Miscellaneous Income	-	-	-
TOTAL NONOPERATING REVENUE	777,705	-	777,705
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(65,686)	-	(65,686)
CAPITAL CONTRIBUTIONS	-	-	-
CHANGE IN NET ASSETS	(65,686)	-	(65,686)
TOTAL NET ASSETS - BEGINNING	247,362	-	247,362
TOTAL NET ASSETS - ENDING	\$ 181,676	\$ -	\$ 181,676

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received From	
Lunchroom sales	\$ 289,466
Government sales	644,197
Other activities	522
Cash paid to/for	
Employees	(437,846)
Supplies	(461,095)
Other activities	<u>(56,664)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(21,420)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Capital Assets	<u>-</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	-

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of interest income	<u>4,203</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>4,203</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (17,217)

Balances, Beginning of Year (6,652)

Balances, End of Year \$ (23,869)

RECONCILIATION OF CHANGE IN NET INCOME TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES

Net Income (Loss)	\$ (65,686)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	20,072
Interest	(4,203)
Sale of Asset	-
Change in assets and liabilities	
(Increase) Decrease in Receivables	30,421
(Increase) Decrease in Inventory	<u>(2,024)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (21,420)</u></u>

SCHEDULE OF NON-CASH TRANSACTIONS

On Behalf Payments from the State for Employee Benefits	\$ 117,946
Donated Commodities Received from Federal Government	41,780

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	\$ 120,218
Accounts Receivable	2,833
Investment Income Receivable	
Loans Receivable	
Investments - Note D	
TOTAL ASSETS	<u>123,051</u>
LIABILITIES:	
Accounts Payable	6,110
Due to Student Groups	116,941
TOTAL LIABILITIES	<u>123,051</u>
NET ASSETS HELD IN TRUST	<u><u>\$ -</u></u>

See independent auditor's report and accompanying notes to financial statements.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Metcalfe County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Metcalfe County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Metcalfe County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Metcalfe County School District Finance Corporation – The Metcalfe County, Kentucky, Board of Education has established the Metcalfe County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

District-Wide Financial Statements – The Statement of Net Assets and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The district-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The District-wide Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

In the District-wide Statement of Net Assets and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange-like transactions are recognized when the exchange takes place.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on Pages 39 and 40. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund). The District's Capital Project Funds include:
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreased net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2007, to finance the General Fund operations were \$0.404 per \$100 valuation for real property, \$0.404 per \$100 valuation for business personal property, and \$0.566 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

Board policy has set the capitalization threshold for reporting capital assets at \$1,000. All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings	50 years
Building Improvements	25 years
Technology Improvements	5 years
School Buses	10 years
Vehicles	5 years
Food Service Equipment	12 years
Audio-Visual Equipment	15 years
Other General Equipment	10 years

Inter-fund Balances

On fund financial statements, receivables and payable resulting from short-term inter-fund loans are classified as “inter-fund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount "accumulated sick leave payable" in the general fund. The non-current portion of the liability is reported as a reserve of fund balance.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Inter-fund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Board's policy is to apply restricted net assets first.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's total cash and cash equivalents was \$1,643,223. Of the total cash balance, \$100,000 was covered by Federal Depository Insurance, \$1,543,223 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2007, consisted of the following:

	Bank Balance	Book Balance
Edmonton State Bank	\$ 2,130,927	\$ 1,643,223

Breakdown per financial statements:

Governmental Funds	\$ 1,546,874
Proprietary Funds	(23,869)
Agency Funds	120,218
	<u>\$ 1,643,223</u>

NOTE D – CAPITAL ASSETS

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Land	\$ 215,406	\$ -	\$ -	\$ 215,406
Land Improvements	1,140,170	20,771	-	1,160,941
Building & Building Improvements	9,974,741	34,407	-	10,009,148
Technology Equipment	2,115,830	393,387	(105,682)	2,403,535
Vehicles	1,563,072	136,540	-	1,699,612
General Equipment	545,446	1,759	(5,749)	541,456
TOTAL AT HISTORICAL COST	15,554,665	586,864	(111,431)	16,030,098
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	778,127	43,079	-	821,206
Building & Building Improvements	3,994,643	199,327	-	4,193,970
Technology Equipment	1,701,040	187,475	(101,250)	1,787,265
Vehicles	1,100,459	94,959	-	1,195,418
General Equipment	328,612	34,436	(3,228)	359,820
TOTAL ACCUMULATED DEPRECIATION	7,902,881	559,276	(104,478)	8,357,679
GOVERNMENTAL ACTIVITIES CAPITAL, NET	<u>\$ 7,651,784</u>	<u>\$ 27,588</u>	<u>\$ (6,953)</u>	<u>\$ 7,672,419</u>

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE D – CAPITAL ASSETS – (CONTINUED)

PROPRIETARY ACTIVITIES:

Building & Building Improvements	\$ 175,489	\$ -	\$ -	\$ 175,489
Technology Equipment	13,797	-	(2,400)	11,397
General Equipment	341,218	-	-	341,218
	<hr/>	<hr/>	<hr/>	
TOTAL AT HISTORICAL COST	530,504	-	(2,400)	528,104

LESS ACCUMULATED DEPRECIATION FOR:

Building & Building Improvements	57,238	3,448	-	60,686
Technology Equipment	13,797	-	(2,400)	11,397
General Equipment	263,034	16,625	-	279,659
	<hr/>	<hr/>	<hr/>	
TOTAL ACCUMULATED DEPRECIATION	334,069	20,073	(2,400)	351,742
	<hr/>	<hr/>	<hr/>	
GOVERNMENTAL ACTIVITIES CAPITAL, NET	<u>\$ 196,435</u>	<u>\$ (20,073)</u>	<u>\$ -</u>	<u>\$ 176,362</u>

DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instructional	\$ 100,240
Student Support Services	41,050
Staff Support Services	27,446
District Administration	9,413
School Administration	8,540
Business Support Services	322
Plant Operation & Maintenance	265,563
Student Transportation	96,823
Central Office	7,542
Community Service Operations	2,338
	<hr/>
TOTAL	<u>\$ 559,277</u>

NOTE E – GENERAL LONG – TERM DEBT

BONDS PAYABLE

The amount shown in the accompanying government-wide financial statements as bond principal outstanding represents the District's future obligations to make payments relating to the bonds issued by the Metcalfe County School District Finance Corporation.

The original amount of each issue and interest rates are summarized below:

1995 Series	\$ 100,000	5.55% - 6.50%
1996 Series	285,000	4.50% - 5.15%
2001 Series	2,685,000	2.70% - 4.20%
2003 Series	665,000	1.75% - 4.40%
2003 Series B	2,690,000	2.00% - 3.50%

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make bond payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Metcalfe County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The school facilities are pledged as security for the related bonds and the District is required to maintain adequate property insurance on the facilities.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE E – GENERAL LONG – TERM DEBT – (CONTINUED)

The District has “participation agreements” with the Kentucky School Facility Construction Commission (the Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statement

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2007, for debt service (principal and interest) are as follows:

Year Ending June 30,	Metcalf County School District		Kentucky School Facility Construction Commission		Total Debt Service
	Principal	Interest	Principal	Interest	
2007-08	\$ 372,761	\$ 110,892	\$ 132,239	\$ 41,835	\$ 657,727
2008-09	381,917	99,797	139,083	37,711	658,508
2009-10	391,663	87,672	144,337	31,175	654,847
2010-11	406,458	74,158	149,542	25,314	655,472
2011-12	416,165	59,556	155,835	19,105	650,661
2012-13	435,203	44,356	50,797	12,450	542,806
2013-14	453,807	29,416	49,193	10,096	542,512
2014-15	29,126	13,035	36,874	7,764	86,799
2015-16	29,238	11,544	30,762	6,260	77,804
2016-17	35,417	9,877	24,583	5,283	75,160
2017-18	25,992	8,571	14,008	4,434	53,005
2018-19	30,153	7,420	14,847	3,842	56,262
2019-20	23,659	6,282	16,341	3,178	49,460
2020-21	34,140	5,010	15,860	2,470	57,480
2021-22	32,776	3,538	17,224	1,744	55,282
2022-23	32,798	2,094	17,202	985	53,079
2023-24	31,219	687	13,781	303	45,990
	<u>\$ 3,162,492</u>	<u>\$ 573,905</u>	<u>\$ 1,022,508</u>	<u>\$ 213,949</u>	<u>\$ 4,972,854</u>

A Summary of bond principal balances is as follows:

	Balance at July 1, 2006	Issued	Retired	Balance at June 30, 2007
District	\$ 3,523,756	\$ -	\$ 361,264	\$ 3,162,492
Commission	1,151,244	-	128,736	1,022,508
	<u>\$ 4,675,000</u>	<u>\$ -</u>	<u>\$ 490,000</u>	<u>\$ 4,185,000</u>

LOANS PAYABLE

The District entered into loans from the Kentucky Inter-local School Transportation Association (KISTA) during the 2000 fiscal year for the purpose of making various capital improvements to the District’s school facilities. Interest is payable semiannually on June 1 and December 1 at rates noted as follows.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE E – GENERAL LONG – TERM DEBT – (CONTINUED)

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
May -99	\$ 985,000	3.80% - 4.80%
Jul-99	173,000	3.90% - 5.30%
Aug -99	128,000	4.60% - 5.60%

Principal on the first two loans is due annually on December 1. Principal on the third loan will be payable annually on June 1. The Commission has expressed the intention to make 100% of the principal and interest payments for the July and August 1999 loans. Debt service on the loans is as follows:

<u>Year Ending June 30,</u>	<u>Metcalf County School District</u>		<u>Kentucky School Facility Construction Commission</u>		<u>Total Debt Service</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2007-08	\$ 67,000	\$ 23,573	\$ 13,970	\$ 10,898	\$ 115,441
2008-09	70,000	20,524	14,000	10,218	114,742
2009-10	73,000	17,288	13,900	9,529	113,717
2010-11	77,000	13,819	15,270	8,817	114,906
2011-12	81,000	10,145	15,960	8,002	115,107
2012-13	84,000	6,267	17,030	7,131	114,428
2013-14	89,000	2,136	18,000	6,301	115,437
2014-15	-	-	19,000	5,334	24,334
2015-16	-	-	19,100	4,335	23,435
2016-17	-	-	21,000	3,284	24,284
2017-18	-	-	22,250	2,125	24,375
2018-19	-	-	23,210	916	24,126
	<u>\$ 541,000</u>	<u>\$ 93,752</u>	<u>\$ 212,690</u>	<u>\$ 76,890</u>	<u>\$ 924,332</u>

NOTE PAYABLE

The District purchased property at 210 Randolph Street, Edmonton, Kentucky in 2001. The property was purchased to eliminate the use of trailers used for offices and storage. The property was purchased through a ten-year note payable dated October 8, 2001 with Edmonton State Bank and matures on October 8, 2011. The initial interest rate of 5.940% is a variable rate. Payments are due monthly in the amount of \$1,688 which includes principle and interest. The note is secured by the commercial real estate consisting of the house and lot at 210 Randolph Street.

The amount of long-term note payable pertaining to the above note is:

<u>Year Ending June 30,</u>	
2008	\$ 15,749
2009	16,788
2010	17,894
2011	19,073
2012	<u>8,186</u>
Total Outstanding	<u>\$ 77,690</u>

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE E – GENERAL LONG – TERM DEBT – (CONTINUED)

CAPITAL LEASE OBLIGATIONS

The District leases buses through KISTA. Commitments for equipment under lease agreements provide for minimum future lease payments as of June 30, 2007 as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 25,606	\$ 6,353	\$ 31,959
2009	17,507	5,442	22,949
2010	18,138	4,864	23,002
2011	18,769	4,252	23,021
2012-16	96,370	10,852	107,222
Total Minimum Rentals	<u>\$ 176,390</u>	<u>\$ 31,763</u>	<u>\$ 208,153</u>

All assets acquired under capital leases are included in the government-wide financial statements within “depreciated capital assets” and, accordingly, are depreciated. On the governmental fund financial statements, payments on capital lease obligations are recognized as expenditures.

NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District has various operating leases for copiers and office equipment. The following is a schedule of future minimum lease payments.

Year Ending June 30,	
2008	\$ 21,396
2009	8,573
2010	5,840
2011	664
Total Minimum Rentals	<u>\$ 36,473</u>

Rent expense for the year ended June 30, 2007 was \$18,301.

NOTE G – ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a certified employee will receive from the District 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments. As of June 30, 2007, management has estimated the accrued sick leave liability obligation will be approximately \$510,219.

In accordance with GASB Statement No. 34, the government fund financial statements reflect the current portion of sick leave payable of \$48,706. This is the amount anticipated to be funded with current year’s economic financial resources.

NOTE H – RETIREMENT PLANS

KENTUCKY TEACHER’S RETIREMENT:

All certified employees are covered under the Teacher’s Retirement System of the State of Kentucky (KTRS). KTRS, a cost-sharing, multiple-employer defined benefit plan provides retirement benefits based on an employee’s final average salary and number of years service. Benefits are subject to certain reductions if the employees retire before reaching age fifty-five unless the employee has twenty-seven or more years of participation in the plan. KTRS provides retirement benefits, as well as for death and disability benefits to plan members.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE H – RETIREMENT PLANS – (CONTINUED)

Funding for the plan is provided from eligible employees who contribute 9.855% of their salary through payroll deductions and by the Commonwealth of Kentucky through matching contributions at the rate of 13.105%. Contribution requirements of the plan members and the District are established by Kentucky Revised Statutes and the KTRS Board of Trustees.

The payroll for employees covered under KTRS was \$5,697,267. For the year ended June 30, 2007, the Commonwealth contributed \$661,812 to KTRS for the benefit of the District's participating employees. The District's contributions to KTRS for the year ended June 30, 2007 were \$84,815, which represents those employees covered by federal programs.

The Kentucky Teacher's Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3868.

COUNTY EMPLOYEES' RETIREMENT SYSTEM:

Classified employees (substantially all full-time Board employees other than certified employees) are covered by the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. CERS provides for retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State legislature. Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions.

Plan members are required to contribute 5.00% of their annual salary through payroll deductions and the Board is required to contribute at an actuarially determined rate. The current rate is 13.19% of the employee's total covered compensation. The District's contributions to CERS for the year ended June 30, 2007 were \$317,606, equal to the required contribution for that year.

The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

NOTE I – ON-BEHALF PAYMENTS

For the year ended 2007, the Commonwealth of Kentucky contributed estimated payments on-behalf of the District's employees of \$2,029,515 to the health insurance carriers and flexible spending account vendors. GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, establishes accounting and reporting standards for on-behalf payments. In accordance with the standard, the District recognized an expense and revenue for this payment on the District-Wide Financial Statements.

NOTE J – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected, to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE K – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related which include Workers' Compensation insurance.

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2007

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Capital Outlay	14,591
School Food Service	65,686

NOTE N – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	School Food Service	General	Indirect Cost	\$ 40,000
Operating	Special Revenue	General	Indirect Cost	4,232
Operating	General	Special Revenue	Technology Match	46,640
Operating	General	Debt Service	Debt Service	30,081
Operating	Capital Outlay	Debt Service	Debt Service	145,757
Operating	Building	Debt Service	Debt Service	429,571
				<u>\$ 696,281</u>

SUPPLEMENTARY INFORMATION

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	\$ 1,876,000	\$ 1,876,000	\$ 2,194,528	\$ 318,528
Other Local Sources	35,000	35,000	86,016	51,016
State Sources	6,732,774	6,732,774	8,655,451	1,922,677
Federal Sources	-	-	32,663	32,663
Other Sources	45,000	45,000	45,924	924
TOTAL REVENUES	8,688,774	8,688,774	11,014,582	2,325,808
EXPENDITURES:				
Instructional	5,037,250	5,037,250	5,783,481	(746,231)
Student Support Services	347,416	347,416	410,929	(63,513)
Staff Support Services	301,127	464,309	478,926	(14,617)
District Administration	447,107	447,107	462,644	(15,537)
School Administration	642,287	642,287	806,096	(163,809)
Business Support Services	97,248	97,248	117,019	(19,771)
Plant Operation & Maintenance	1,021,047	1,021,047	1,149,428	(128,381)
Student Transportation	819,713	819,713	907,580	(87,867)
Central Office	163,182	-	-	-
Community Service Operations	-	-	-	-
Facility Acquisition & Construction	-	-	-	-
Other	662,796	662,796	77,002	585,794
TOTAL EXPENDITURES	9,539,173	9,539,173	10,193,105	(653,932)
NET CHANGE IN FUND BALANCE	(850,399)	(850,399)	821,477	1,671,876
FUND BALANCES - BEGINNING	850,399	850,399	850,399	-
FUND BALANCES - ENDING	\$ -	\$ -	\$ 1,671,876	\$ 1,671,876

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	\$ -	\$ -	\$ -	\$ -
Other Local Sources	30,345	36,223	32,225	3,998
State Sources	792,329	812,275	1,049,315	237,040
Federal Sources	1,479,406	1,479,408	1,737,817	258,409
Other Sources	24,264	46,640	46,640	-
TOTAL REVENUES	2,326,344	2,374,546	2,865,997	491,451
EXPENDITURES:				
Instructional	1,858,430	1,904,041	2,278,571	(374,530)
Student Support Services	158,296	159,287	251,624	(92,337)
Staff Support Services	106,580	106,580	128,285	(21,705)
District Administration	6,414	6,414	6,389	25
School Administration	-	-	-	-
Business Support Services	-	-	-	-
Plant Operation & Maintenance	1,800	1,800	1,187	613
Student Transportation	-	-	-	-
Central Office	-	-	-	-
Community Service Operations	194,824	196,424	195,709	715
Facility Acquisition & Construction	-	-	-	-
Other	-	-	4,232	(4,232)
TOTAL EXPENDITURES	2,326,344	2,374,546	2,865,997	(491,451)
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCES - BEGINNING	-	150,398	-	(150,398)
FUND BALANCES - ENDING	\$ -	\$ 150,398	\$ -	\$ (150,398)

METCALFE COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
GOVERNMENTAL FUND - CAPITAL PROJECT FUNDS
JUNE 30, 2007

	CAPITAL OUTLAY FUND	BUILDING FUND	CONSTRUCTION FUND	TOTAL CAPITAL PROJECT FUNDS
ASSETS:				
Cash & Cash Equivalents	\$ -	\$ 42,953	\$ 15,912	\$ 58,865
Accounts Receivable:				
Taxes	-	-	-	-
Accounts	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>-</u>	<u>42,953</u>	<u>15,912</u>	<u>58,865</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	-	-	-	-
Accrued Sick Leave	-	-	-	-
Deferred Revenues	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Reserved for:				
Encumbrances	-	-	-	-
Site-Based Carry forward	-	-	-	-
Accrued Sick Leave	-	-	-	-
Unreserved - Reported in Non-Major	-	-	-	-
Capital Projects Fund	-	42,953	15,912	58,865
Debt Service Fund	-	-	-	-
Other Purposes	-	-	-	-
Total Fund Balances	<u>-</u>	<u>42,953</u>	<u>15,912</u>	<u>58,865</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ -</u>	<u>\$ 42,953</u>	<u>\$ 15,912</u>	<u>\$ 58,865</u>

METCALFE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND - CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	CAPITAL OUTLAY FUND	BUILDING FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:				
Taxes	\$ -	\$ 173,849	\$ -	\$ 173,849
Earnings from Investments	-	562	-	562
Intergovernmental - State	148,180	298,113	-	446,293
Intergovernmental - Federal	-	-	-	-
Other Sources	-	-	-	-
TOTAL REVENUES	148,180	472,524	-	620,704
EXPENDITURES:				
Instructional	-	-	-	-
Student Support Services	-	-	-	-
Staff Support Services	-	-	-	-
District Administration	-	-	-	-
School Administration	-	-	-	-
Business Support Services	-	-	-	-
Plant Operations & Maintenance	17,014	-	-	17,014
Student Transportation	-	-	-	-
Central Office	-	-	-	-
Community Service Operations	-	-	-	-
Facilities Acquisition & Construction	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
TOTAL EXPENDITURES	17,014	-	-	17,014
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	131,166	472,524	-	603,690
OTHER FINANCING SOURCES(USES):				
Proceeds from Sale of Bonds	-	-	-	-
Proceeds from Sale of Assets	-	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	(145,757)	(429,571)	-	(575,328)
TOTAL OTHER FINANCING SOURCES(USES)	(145,757)	(429,571)	-	(575,328)
NET CHANGE IN FUND BALANCES	(14,591)	42,953	-	28,362
FUND BALANCES - BEGINNING	14,591	-	15,912	30,503
FUND BALANCES - ENDING	\$ -	\$ 42,953	\$ 15,912	\$ 58,865

METCALFE COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENT FUNDS
	<hr/>	<hr/>
ASSETS:		
Cash & Cash Equivalents	\$ -	\$ -
Accounts Receivable:		
Taxes	-	-
Accounts	-	-
	<hr/>	<hr/>
TOTAL ASSETS	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES:		
Liabilities:		
Accounts Payable	-	-
Accrued Sick Leave	-	-
Deferred Revenues	-	-
Total Liabilities	<hr/>	<hr/>
Fund Balances:		
Reserved for:		
Encumbrances	-	-
Site-Based Carry forward	-	-
Accrued Sick Leave	-	-
Unreserved - Reported in Non-Major	-	-
Capital Projects Fund	-	-
Debt Service Fund	-	-
Other Purposes	-	-
Total Fund Balances	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>
TOTAL LIABILITIES AND NET ASSETS	<hr/> <hr/>	<hr/> <hr/>

METCALFE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:		
Taxes	\$ -	\$ -
Earnings from Investments	-	-
Intergovernmental - State	198,943	198,943
Intergovernmental - Federal	-	-
Other Sources	-	-
TOTAL REVENUES	<u>198,943</u>	<u>198,943</u>
EXPENDITURES:		
Instructional	-	-
Student Support Services	-	-
Staff Support Services	-	-
District Administration	-	-
School Administration	-	-
Business Support Services	-	-
Plant Operations & Maintenance	-	-
Student Transportation	-	-
Central Office	-	-
Community Service Operations	-	-
Facilities Acquisition & Construction	-	-
Debt Service:		
Principal	593,468	593,468
Interest	210,884	210,884
TOTAL EXPENDITURES	<u>804,352</u>	<u>804,352</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(605,409)	(605,409)
OTHER FINANCING SOURCES(USES):		
Proceeds from Sale of Bonds	-	-
Proceeds from Sale of Assets	-	-
Operating Transfers In	605,409	605,409
Operating Transfers Out	-	-
TOTAL OTHER FINANCING SOURCES(USES)	<u>605,409</u>	<u>605,409</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>
FUND BALANCES - BEGINNING	<u>-</u>	<u>-</u>
FUND BALANCES - ENDING	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

METCALFE COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2007

	FUND BALANCE JULY 1, 2006	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2007
Metcalf County High School	\$ 64,730	\$ 233,116	\$ 241,012	\$ 56,834
Summer Shade Elementary School	13,037	48,904	44,196	17,745
Edmonton Elementary School	27,127	68,925	86,104	9,948
North Metcalfe Elementary School	17,288	35,685	34,962	18,011
Metcalf County Middle School	7,316	60,501	53,414	14,403
Total Activity Funds (Due to Student Groups)	\$ 129,498	\$ 447,131	\$ 459,688	\$ 116,941

SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
SCHOOL ACTIVITY FUNDS

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2007

	CASH BALANCE July 1, 2006	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2007	ACCOUNTS RECEIVABLE JUNE 30, 2007	ACCOUNTS PAYABLE JUNE 30, 2007	FUND BALANCE JUNE 30, 2007
Academic Team	\$ 421	\$ 100	\$ 295	\$ 226	\$ -	\$ -	\$ 226
Art Department	532	33	97	468	-	-	468
Athletics	732	69,395	67,069	3,058	247	416	2,889
Band	37	7,380	7,035	382	-	128	254
Beta Club	7,119	18,513	20,699	4,933	-	1,045	3,888
Book Rental	5,702	7,820	12,889	634	-	-	634
Cheerleaders	68	5,348	5,339	77	-	75	2
Volleyball	804	-	439	366	-	-	366
Physics Club	85	-	85	-	-	-	-
Nursing Class	-	357	357	-	-	-	-
Class of 2009	808	-	25	783	-	-	783
Class of 2010	974	-	256	718	-	-	718
Class of 2007	1,215	25	1,213	27	-	-	27
Class of 2008	1,085	7,366	5,639	2,812	-	-	2,812
Computer Club/STLP	2,208	2,399	2,564	2,043	-	-	2,043
Concession Golf	-	300	300	-	-	-	-
Concession Lady Hornets	1	900	860	41	-	-	41
Concession Softball	-	600	600	-	-	-	-
Concession Boys Basketball	3,606	4,731	5,317	3,020	-	-	3,020
Concession Cheerleaders	100	600	700	-	-	-	-
Concession Cross Country	300	485	777	8	-	-	8
Concession Dance Team	-	300	-	300	-	-	300
Promo I Class (TV)	730	-	-	730	-	-	730
Concession Baseball	600	600	-	1,200	-	-	1,200
Concesssion Football	900	900	900	900	-	-	900
Concession Volleyball	-	300	250	50	-	-	50
Concession Band	430	600	1,030	-	-	-	-
Cross Country/Track	422	300	707	15	-	-	15
Dance Team	197	7,051	7,159	89	-	-	89
Deca Club	363	-	363	-	-	-	-
Drama	123	147	50	220	-	-	220
FCA	396	263	462	197	-	-	197
FCCLA	1,137	1,286	1,918	505	-	416	90
FEA	1,083	546	29	1,600	-	521	1,080
FFA	5,881	23,536	24,898	4,519	755	1,540	3,734
General	337	6,012	5,923	426	500	126	800
Lady Hornets	-	5,089	5,083	6	-	-	-

METCALFE COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2007

	CASH BALANCE July 1, 2006	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2007	ACCOUNTS RECEIVABLE JUNE 30, 2007	ACCOUNTS PAYABLE JUNE 30, 2007	FUND BALANCE JUNE 30, 2007
Office Account	\$ 14	\$ 3,674	\$ 3,010	\$ 678	\$ -	\$ -	\$ 678
Interest	1,282	2,922	3,256	949	-	-	949
Library	1,881	61	1,457	485	-	786	(301)
Pep Club	359	952	748	563	-	-	563
Pride	-	135	-	135	-	-	135
Seat Club	3	1,920	1,755	169	-	-	169
Student Coke/Snack	2,805	4,027	6,723	109	91	176	24
Student Council	100	492	323	269	-	88	182
Softball	30	-	-	30	-	-	30
Teachers' Lounge	311	2,046	2,357	-	-	-	-
Teen Scene	1,210	415	1,625	-	-	-	-
The Buzz	-	133	-	133	-	-	133
Picture Day Fund	147	708	855	-	-	-	-
KJHS	1,511	3,115	3,462	1,164	-	-	1,164
Yearbook	15,867	11,971	9,812	18,026	-	-	18,026
KJHS Grant	-	30	30	-	-	-	-
HOSA	3,437	3,711	4,948	2,200	-	-	2,200
Memorial Fund	331	-	-	331	-	-	331
Game Concessions	34	25,482	23,638	1,878	-	-	1,878
Phase II Tobacco Program	15	-	-	15	-	-	15
Jr. Beta Club	3	1,805	1,197	611	-	300	311
CPR	-	212	212	-	-	-	-
Flower Fund	325	140	183	282	-	35	247
Special Ed	-	100	-	100	-	-	100
Archery Club	-	1,401	1,301	99	-	-	99
Athletic Travel	174	-	-	174	-	-	174
Project Graduation	11,031	10,191	19,392	1,830	100	-	1,930
United To Read	134	-	20	114	-	-	114
Chess Club	-	70	-	70	-	-	70
Scholarship Fund	25	-	-	25	-	-	25
Total All Funds	79,425	248,995	267,629	60,791	1,694	5,651	56,834
Interfund Transfers	-	(16,492)	(16,492)	-	-	-	-
Total	\$ 79,425	\$ 232,503	\$ 251,137	\$ 60,791	\$ 1,694	\$ 5,651	\$ 56,834

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

METCALFE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS-THROUGH GRANTOR'S NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>			
Literacy Through School Libraries	84.364	3226	\$ 32,967
Passed-Through KY Workforce Development Cabinet:			
Adult Education - State Grant Program	84.002	3727	76,785
Total KY Workforce Development Cabinet			<u>76,785</u>
Passed-Through Department of Education:			
Title I	84.010	3105	20,949
Title I	84.010	3106	159,186
Title I	84.010	3107	455,859
			<u>635,994</u>
Migrant Education - State Grant Program	84.011	3115	6,315
Migrant Education - State Grant Program	84.011	3116	58,749
Migrant Education - State Grant Program	84.011	3116R	3,506
Migrant Education - State Grant Program	84.011	3117	68,773
Migrant Education - State Grant Program	84.011	3117R	90,208
			<u>227,551</u>
State Grants for Innovative Programs	84.298	3346	142
State Grants for Innovative Programs	84.298	3347	3,052
			<u>3,194</u>
Vocational Education - Basic Grants to States	84.048	3486	975
Vocational Education - Basic Grants to States	84.048	3486A	328
Vocational Education - Basic Grants to States	84.048	3487	17,474
			<u>18,777</u>
Rural Education	84.358	3505	1,430
Rural Education	84.358	3506	4,689
Rural Education	84.358	3507	47,713
Rural Education	84.358	3508	5,962
			<u>59,794</u>
Teacher Quality Enhancement Grants	84.367	4016	1,784
Teacher Quality Enhancement Grants	84.367	4017	125,316
			<u>127,100</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	4066	9,787
Safe and Drug-Free Schools and Communities - State Grants	84.186	4067	7,252
			<u>17,039</u>
Education Technology State Grants	84.318	42550	4,491
Education Technology State Grants	84.318	42560	15,189
			<u>19,680</u>
Twenty-First Century Community Learning Centers	84.287	5506	151,321
Special Education Cluster:			
Special Education - Grants to States	84.027	3377	319,888
Special Education - Preschool Grants	84.173	3435	2,167
Special Education - Preschool Grants	84.173	3436	9,095
Special Education - Preschool Grants	84.173	3437	32,099
Total Special Education Cluster			<u>363,249</u>
Total U.S. Department of Education			1,733,451

METCALFE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS-THROUGH GRANTOR'S NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
Child Nutrition Cluster:			
National School Lunch Program	10.555	7750002 06	\$ 95,178
National School Lunch Program	10.555	7750002 07	320,483
School Breakfast Program	10.553	7760005 06	36,087
School Breakfast Program	10.553	7760005 07	145,124
Summer Food Service Program for Children	10.559	7690024 06	454
Summer Food Service Program for Children	10.559	7690024 06	4,365
Total Child Nutrition Cluster			<u>601,691</u>
Pass-Through State Department of Agriculture			
Food Donation Program	10.550		<u>41,780</u>
Total U.S. Department of Agriculture			<u>643,471</u>
<u>Department of Labor</u>			
Passed-Through Barren River Area Development			
Workforce Investment Act	17.259	0656	<u>1,236</u>
Total Department of Labor			<u>1,236</u>
<u>Corporation For National and Community Service</u>			
Community Education Learn and Serve			
Total Corporation For National and Community Service	94.004	6757	<u>3,131</u>
			<u>3,131</u>
Total Federal Financial Assistance			<u>\$ 2,381,289</u>

METCALFE COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Metcalfe County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair value of the commodities disbursed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

METCALFE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

Section I - Summary of Auditors' Results

Financial Statements

Type of audit issued:

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.559	Child Nutrition Cluster
84.287	Twenty First Century Learning Centers

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement of Findings

No matter were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

METCALFE COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2007

The audit of Metcalfe County School District for the year ended June 30, 2006, revealed no audit findings requiring corrective action.



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENTAL AUDITING STANDARDS*

Kentucky State Committee for School District Audits
Members of the Board of Education
Metcalf County School District
Edmonton, KY 42129

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Metcalf County School District, as of and for the year ended June 30, 2007, which collectively comprise the Metcalf County School District's basic financial statements and have issued our report thereon dated August 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metcalf County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Metcalf County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Metcalf County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Metcalf County School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Metcalf County School District's financial statements that is more than inconsequential will not be prevented or detected by the Metcalf County School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Metcalf County School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the attached schedule is a material weakness.

Compliance and Other Matters

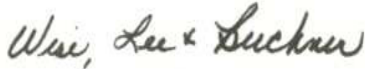
As part of obtaining reasonable assurance about whether Metcalf County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Metcalf County School District, in a separate letter dated August 31, 2007.

Metcalf County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Metcalf County School District's response and, accordingly, we express no opinion on it.

In addition, we have satisfied ourselves that there were no violations of specific statutes or regulations identified in Section 3(9) (a-y) of the *Guide for Auditing Local School Districts' Fiscal Reports*, required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board Members, the Kentucky State Committee for School District Audits and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Campbellsville, KY

August 31, 2007

Metcalf County School District
Schedule of Findings and Responses
June 30, 2007

Finding:

During our audit we identified some capital assets that had not been added to the property and equipment listing. To prevent the need for major adjustments to the property accounts at the end of each year, we suggest that the person in charge of adding new capital assets do a monthly review of records to ensure that each asset that falls within the entity's capitalization level is added. If questions arise, consultation with the auditors is recommended.

Response:

Management agrees with our findings and will implement our recommendations.



REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Metcalf County School District
Edmonton, KY 42129

Compliance

We have audited the compliance of the Metcalf County School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Metcalf County School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Metcalf County School District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I and II of the Independent Auditor's Contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Metcalf County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Metcalf County School District's compliance with those requirements.

In our opinion, Metcalf County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

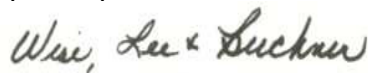
Internal Control Over Compliance

The management of Metcalf County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Metcalf County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Kentucky State Committee for School District Audits
Members of the Board of Education
Metcalf County School District
Page 2

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Metcalf County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Wai, Lee & Luckner".

Certified Public Accountants

Campbellsville, Kentucky
August 31, 2007

MANAGEMENT LETTER



WISE, LEE & BUCKNER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

GREGORY S. WISE, CPA
SHIRLEY M. BUCKNER, CPA
JEFFREY G. SPROWLES, CPA

August 31, 2007

Members of the Board of Education
Metcalf County School District
Edmonton, Kentucky

In planning and performing our audit of the financial statements of the Metcalf County School District for the year ended June 30, 2007, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance of the internal control structure.

However, during our audit we became aware of four matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters, but we would first like to address the progress of the management letter points from the previous audit.

The management letter from the previous fiscal year discussed two points with respect to strengthening internal controls within the school activities funds.

In connection with our test of receipts for the activity funds, the following observations were made concerning the prior year management letter points:

Prior fiscal year Condition – Pre-numbered receipts are being used but are not properly filled out at Summer Shade Elementary and Edmonton Elementary. The "Receiving From" portion of receipts needs to state the person/sponsor from whom the money was received.

Observation – Pre-numbered receipts are being used and correctly filled out with the appropriate information.

Prior fiscal year Condition – Procedures for ticket sales are not being followed at Metcalf County Middle School.

Observation – Metcalf County Middle School appears to have implemented and uses proper procedures and forms for ticket sales.

The following memorandum discusses the current year management letter points. We will review the status of these comments during our next audit engagement. We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the Board is complying with requirements such as those mentioned in the following memorandum.

Sincerely,

Certified Public Accountants

Fiduciary Funds – School Activity Funds

- I. Condition – Activity Fund Budget procedures are not being followed at all schools.

Criteria – Accounting Procedures for Kentucky School Activity Funds requires timely submission and proper forms to be used for the Activity Fund individual tentative budgets, Internal Account Budget and final budgets.

Cause – School employees were not properly trained.

Effect – Non Compliance with Accounting Procedures for Kentucky School Activity Funds.

Recommendation – Educate personnel about proper policy for Activity Fund Budget procedures.

Response – Management agrees with the finding and the recommendation will be adopted.

- II. Condition – Activity Fund ticket sales procedures are not being followed at Metcalfe High School.

Criteria – Accounting Procedures for Kentucky School Activity Funds requires proper procedures to be followed concerning ticket sales.

Cause – School employees have been properly trained in ticket sales procedures. There appears to be a lack of concern for compliance in this area.

Effect – Noncompliance with Accounting Procedures for Kentucky School Activity Funds.

Recommendation – Educate personnel involved in ticket sales for events charging admission the importance of being in compliance with “Red Book” procedures.

Response – Management agrees with the finding and the recommendation will be adopted.

- III. Condition – Activity Fund booster clubs procedures are not being followed at Metcalfe County High School.

Criteria – Accounting Procedures for Kentucky School Activity Funds requires proper procedures to be followed concerning Activity Fund booster clubs.

Cause – School employees were not properly trained.

Effect – Non-Compliance with Accounting Procedures for Kentucky School Activity Funds.

Recommendation – Educate personnel about proper policy procedures for Activity Fund booster clubs concerning the submission of proper documentation on a timely basis per the “Red Book.”

Response – Management agrees with the finding and the recommendation will be adopted.

- IV. Condition – Form F-SA-2B fundraiser worksheet is not properly being used at Metcalfe County High School.

Criteria – Accounting Procedures for Kentucky School Activity Funds requires proper procedures to be followed concerning Activity Fund fundraisers.

Cause – School employees were not properly trained.

METCALFE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS – (CONTINUED)
August 31, 2007

Effect – Non-Compliance with Accounting Procedures for Kentucky School Activity Funds.

Recommendation – Educate personnel to use fundraiser worksheet (Form F-SA-2B) to document all fundraiser activity.

Response – Management agrees with the finding and the recommendation will be adopted.